

## **Brazil: The emerging Social Agenda**

This is a summary presentation of Edmar L. Bacha and Simon Schwartzman (eds), *Brasil: A nova agenda social*. Rio de Janeiro, Editora LTC, 2011.

Since the 1930s Brazil has witnessed an almost permanent process of economic growth and urbanization, which coexisted with large regional imbalances and social inequality. In the 1970s, under a military regime, the economy grew at Chinese-like rates of more than 10% a year. The 1980s were marked by economic stagnation but also a resumption of democracy. A new Constitution in 1988 enshrined the principles of a generous welfare state, promising free education, health care, work protection, and retirement benefits to all. This was in the midst of a galloping inflation that made the country even more unequal than in the past. In the 1990s, it was possible at last to stabilize the economy and prepare the country for the economic opportunities brought about by the expansion of international markets of the last decade. One important consequence was a significant reduction of income inequality, increasing the country's legitimacy as a world player, a policy that was continued by his successor, Lula. With urbanization, economic growth and expanding social services, most of the social indicators improved in the last twenty years. The number of people in extreme poverty went down, infant mortality was reduced, life expectancy was up, all children started having access to schools, most houses gained access to treated water and electricity, and an increasing number of families became able to acquire TV sets, refrigerators, cell phones, and even computers. A standard measure of income inequality, the Gini coefficient, which was .61 in 1990, went down to 0.58 in 2000, and 0.54 in 2010 (in comparison, the Gini for the United States is .40

and .26 for Sweden – the closest to one the coefficient, the higher the inequality).

The counterparts to these achievements were very high tax revenues, nearing 40% of GNP, and very high social spending, which, however, favors mostly the middle and upper-income groups. This is exemplified by generous retirement benefits for public sector employees and the military, free education in public universities, and income-tax breaks for health-related expenditures. Retirement benefits consume a full 11% of GNP, 5% goes for health, and another 5 % for education. On the other extreme, the conditional cash transfer program aimed at the very poor costs only about 0.5% of GDP.

In retrospect, most of the universal entitlements established in the 1988 Constitution favored those able to secure them through political lobbying or expensive legal disputes. There is little tax room left to continue expanding such social services and benefits. In recent years, the Brazilian government placed social inclusion and the reduction of extreme poverty as its main priorities in social policy. This makes sense, given the inequality and poverty that persist, but very little is being done to improve the quality and direction of the main social policies. Besides facing their budgetary limitations and inherent inequities, a profound revision is needed to deal with country's new social challenges.

The two main changes from past decades are in demography and urbanization. The 2010 demographic census showed that fertility rates in Brazil are now similar to those in Southern Europe. Brazil's population, which is still young and close to 190 million, is likely to start to decline by 2035 or earlier, while the number of persons with 60 years or older, currently 10% of the population, will reach over 30% by 2050. This will create an enormous burden for the health and social security systems – and the later already

costs 11% of GDP in retirement and pension benefits, a proportion three times higher than countries with a similar share of the elderly.

A few decades ago, most Brazilians lived in the countryside or in small towns, but today 75% of them, or 142 million, live in urban settings. Of those, 78 million live in metropolitan areas of more than one million residents, including São Paulo, with 20 million and one of the largest urban centers in the world; Rio de Janeiro, 12 million; Belo Horizonte, 5.5 million; Porto Alegre, 4 million; and Brasilia, Recife, Fortaleza, Salvador and Curitiba, with more than 3 million each. This urban concentration occurred while the more dynamic sectors of the economy moved to extensive and highly technical production of agricultural, fuel and mineral products, combined with a relative reduction in industrial employment. With 17% of the labor force in agriculture and 14% in industry, most of the urban residents have to work in different types of services, some with regular work contracts, but most with precarious, informal contracts and low pay. Precarious work, overcrowding, lack of housing and low quality of the public services of transportation, policing, health care and education make these cities breeding grounds for social anomie and criminality. While richer cities, like São Paulo, are better able to deal with the more extreme forms of urban decay, other urban centers in the country's North and Northeast cannot do it, and face extremely high levels of urban violence, associated with uncontrolled drug traffic handled by organized gangs.

Rapid demographic shift and urban overcrowding and decay, combined with the impossibility of expanding taxes without strangling the economy, requires a new agenda for social policies that cannot be limited to the elimination of extreme poverty, as recently proclaimed by President Rousseff. Assessments of the

large and popular conditional cash transfer program implemented by the Brazilian government in the last several years (*bolsa família*) and now being expanded show that it has had some impact in the reduction of extreme poverty, particularly in rural areas, but only marginal impact, if any, on education, health and employment. The reduction of income inequality that is taking place since the 1990s is due, first, to the end of inflation in 1994; second, to the new job opportunities created by economic expansion in recent years, which allowed for an increase in the minimum wage without creating unemployment; and third to the cash transfer programs, combined with extension of basic retirement benefits to rural areas and the older poor elsewhere.

A new book edited by the authors, with the participation of leading experts in each field (Brazil: *A Nova Agenda Social*, Rio de Janeiro, LTC, 2011), discusses the current situation and possible alternatives in health, social security, income distribution, education and urban violence. Each area has its own peculiarity, but taken together, crucial issues emerge that must be confronted in all of them.

First, it is necessary to move from the unrealistic assumption of universal entitlements of social benefits to policies targeted to those more in need. This will require a reduction of benefits to the better off and the introduction of cost sharing in public education and health. In social security, it will require the gradual elimination of the special benefits enjoyed by civil servants, to be replaced by a combination of a basic provision for the poor and a financially-sound contribution-based system for the rest.

Second, it is already clear the public sector cannot, by itself, provide all the services demanded by the population, and should be able to increase its ability to regulate and work in partnership with the private sector. A large part of public services is provided

by the private sector – hospitals, education, urban transportation, power distribution, housing, garbage collection, and others. The links between governments and private enterprises, however, tend to be murky and prone to corruption, making the services expensive and inefficient, as they lack transparency and well-conceived regulatory frameworks.

Third, the public sector needs to improve its technical and managerial competence, both in the implementation of policies it handles directly – such as basic education, primary health care, and urban security – and on its links with private providers. It needs to experiment with new ways of managing its schools, hospitals and police forces, based on expert knowledge, and develop performance indicators to assess outcomes.

Changes are already occurring in many places, providing evidence of good practices that can be evaluated and adopted in other parts of the country. Major legal and institutional reforms, however, cannot happen without the commitment of the central government, which has to balance the short-term political costs of contravening vested interests with the long-term benefits of fiscal equilibrium and better social conditions for the population.

There are many reasons why this new social agenda is so important. It is a question of human rights; it is a prerequisite to increase and maintain social cohesion and economic integration of the population in the modern economy; and is also a long-term prerequisite for democracy. A combination of economic prowess with a well-balanced Welfare State, a modern public sector, and a reliable democracy, will at last make Brazil a full and legitimate world player.

